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September 7, 2006

RECEIVED

VIA: FACSIMILE TRANSMISSION AND UPS

SEP 08 2006

Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

PUBLIC SERVICE
COMMISSION

RE: South Kentucky Rural Electric Cooperative
Corporation
Case No. 2006-00402
Application for a Certificate of Convenience
and Necessity

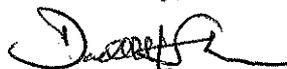
Dear Sir/Madam:

On behalf of South Kentucky Rural Electric Cooperative Corporation, I send for filing an Application for a Certificate of Convenience and Necessity to Construct a District Office and Service Facility in Russell Springs, Kentucky and a District Office and Service Facility in Albany, Kentucky. The Application was originally forwarded to you without my signature. This filing replaces that one (the documents are the same).

I am faxing the six (6) page Application and am sending via overnight mail the same six page Application with my original signature with all exhibits attached thereto. If you retain as a permanent record only the Application with my original signature which, along with the original of this letter, will be sent via overnight mail you will have South Kentucky's entire filing. The original document bearing only Allen Anderson's signature as well as my fax of this letter and the first six pages are duplicates.

Please contact me if I may answer any questions.

Yours truly,



Darrell L. Saunders

DLS: mw
Enclosure
cc: Jeff Greer

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 08 2006

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF;

APPLICATION OF SOUTH KENTUCKY)
RURAL ELECTRIC COOPERATIVE)
CORPORATION FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY TO)
CONSTRUCT A DISTRICT OFFICE AND)
SERVICE FACILITY IN RUSSELL)
SPRINGS, KENTUCKY AND A DISTRICT)
OFFICE AND SERVICE FACILITY IN)
ALBANY, KENTUCKY)

CASE NO. 2006-00402

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

SOMERSET, KENTUCKY

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application)
Of South Kentucky Rural Electric)
Cooperative Corporation for an)
Order issuing a Certificate of Public)
Convenience and Necessity)

Case No. 2006-00402

APPLICATION

The petition of South Kentucky Rural Electric Cooperative Corporation ("South Kentucky"), P. O. Box 910, Somerset, Kentucky 42502, designated as Kentucky 54 – Wayne states that it is a corporation with all rights, characteristics, powers, privileges and duties shown by the records now on file in the office of the Public Service Commission ("Commission") of Kentucky, and that it is engaged in the distribution of electric energy in the Counties of Pulaski, Wayne, McCreary, Cumberland, Rockcastle, Case, Russell, Laurel, Clinton and Adair, all in Kentucky and Pickett and Scott Counties in the State of Tennessee, by and under the Rural Electrification Act and under authority contained in Kentucky Revised Statutes, Chapter 279. South Kentucky is proposing to construct two new district offices and service facilities with one in Russell Springs, KY and one in Albany, KY.

In support of its application, South Kentucky is providing the below listed information.

1. South Kentucky's Articles of Incorporation with all Amendments have been previously filed with the Commission in Case No. 96-109 (870 KAR 5:001, Section I(3)).

2. South Kentucky has based its decision to build these new facilities on a Facilities Analysis conducted by the National Rural Electric Cooperative Association ("NRECA"). A copy of that study was submitted to the Commission in Case No. 2005-00261. South Kentucky is requesting that study be incorporated into this application by reference. Copies of documents from that study specific to the proposed facilities for in Russell Springs and Albany are contained in Exhibit 1 to this filing. These specific documents provide the necessary support as to the need for these facilities (807 KAR 5:001, Section 9(2)a.

3. All franchise or permits needed to construct the proposed facility will be acquired by the successful contract bidder (807 KAR 5:001, Section 9(2)b.

4. The rationale for the new buildings and the justification for their construction are contained in Exhibit 2 (807 KAR 5:001, Section 9(2)c.

5. Three (3) maps showing the location of the new construction is contained in Exhibit 3 (807 KAR 5:001, Section 9(2)a.

6. South Kentucky will construct the proposed district offices from general funds until loan funds are available from the United States Department of Agriculture ("USDA") Rural Development Electric Programs ("RDEP"). Loan funds from RDEP will then be used to reimburse general funds and to provide funding to complete the construction of the proposed facilities. Funding from RDEP will be through the

guaranteed Federal Finance Bank with a term of 35 years. A discussion of the planned financing is contained in Exhibit D of this filing (807 KAR 5:001, Section 9(2)e.

7. An estimate of the cost of operating these facilities after completion is contained in Exhibit E (807 KAR 5:001, Section 9(2)f.

8. Additional information proffered to afford the Commission a complete understanding of the situation includes the following (807 KAR 5:001, Section 9(2)g.

a. A description of proposed facilities and the current facilities is contained in Exhibit F.

b. The impact of these facilities on the financial condition of South Kentucky is contained in Exhibit G.

c. The impact of these facilities upon the electric rates of South Kentucky is contained in Exhibit H.

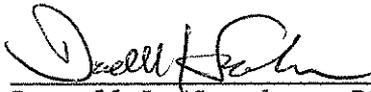
d. The plan for the disposal of the current facilities is contained in Exhibit I of this application.

e. Copies of an external view of the completed buildings along with a copy of the floor diagram are contained in Exhibit J of this application.

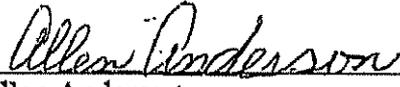
Wherefore, South Kentucky Rural Electric Cooperative Corporation in Somerset, KY respectfully petitions this Commission to grant South Kentucky a Certificate of Convenience and Necessity to construct new offices and service facilities at its Russell Springs, KY and Albany, KY locations and all proper orders and relief.

Respectfully submitted,

South Kentucky Rural Electric
Cooperative Corporation



Darrell L. Saunders, PSC
700 Master Street
P.O. Box 1324
Corbin, KY 40702
(606) 523-1370 - phone
(606) 523-1372 - fax



Allen Anderson
General Manager & CEO
South Kentucky Rural Electric
Cooperative Corporation
Somerset, Kentucky 42501

STATE OF KENTUCKY
SCT)
COUNTY OF PULASKI

Subscribed and sworn to before me by Alan Anderson, General Manager and
C.E.O. of South Kentucky Rural Electric Cooperative Corporation, at Somerset,
Kentucky this 5th day of September, 2006.



NOTARY PUBLIC
State of Kentucky at Large

My Commission Expires: JUNE 23, 2010

COUNSEL:

Darryl Saunders
700 Masters St.
P.O. Box 1324
Corbin, Kentucky 40702

Observations Russell Springs

- ◆ Access and Egress for Members and Employees can conflict at certain times.
- ◆ There appears to be sufficient acreage to build a new facility at the existing location if the rent house can be demolished.
- ◆ Present office, warehouse/storage, and community meeting room, will not accommodate projected growth.
- ◆ Transportation Corridors seems to Accommodate Needs and Criteria.

Observations Russell Springs

- ◆ Present Building is Sited Inappropriately to Consider Expansion.

Observations for Albany

- ◆ The building does not lend to expansion or renovation due to sighting, traffic flow or available land area.
- ◆ Difficult and impractical to bring facilities to ADA or OSHA standards.
- ◆ Interior space will not accommodate projected growth in employees or member traffic.

**SOUTH KENTUCKY RECC
SOMERSET, KY**

Exhibit 2
Page 1 of 2

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

RATIONALE AND JUSTIFICATION FOR THE NEW BUILDINGS

The current district office facilities in Russell Springs and Albany have been found to be inadequate to suit the needs of South Kentucky in the districts served by these offices. These facilities were constructed many years ago and were never intended for the demands made upon them today. Some of the specific problems associated with each of the current facilities is presented below:

Russell Springs

Access and egress for Cooperative members and employees may conflict at times

The present office space, warehousing/storage space, and community room facilities will not accommodate the current needs much provide for any projected growth.

Present facilities are sited inappropriately for consideration for any type of expansion.

Albany

The building does not lend to any expansion or renovation due to siting, traffic flow or available land area.

Bringing these facilities up to ADA or OSHA standards would be difficult or almost impractical.

Interior space will not accommodate current members or employees without in projected consideration for projected growth needs in employees or member traffic.

Problems Common to Both Facilities

Space needed for storage and other needs has been confiscated to be used for employee needs

**SOUTH KENTUCKY RECC
SOMERSET, KY**

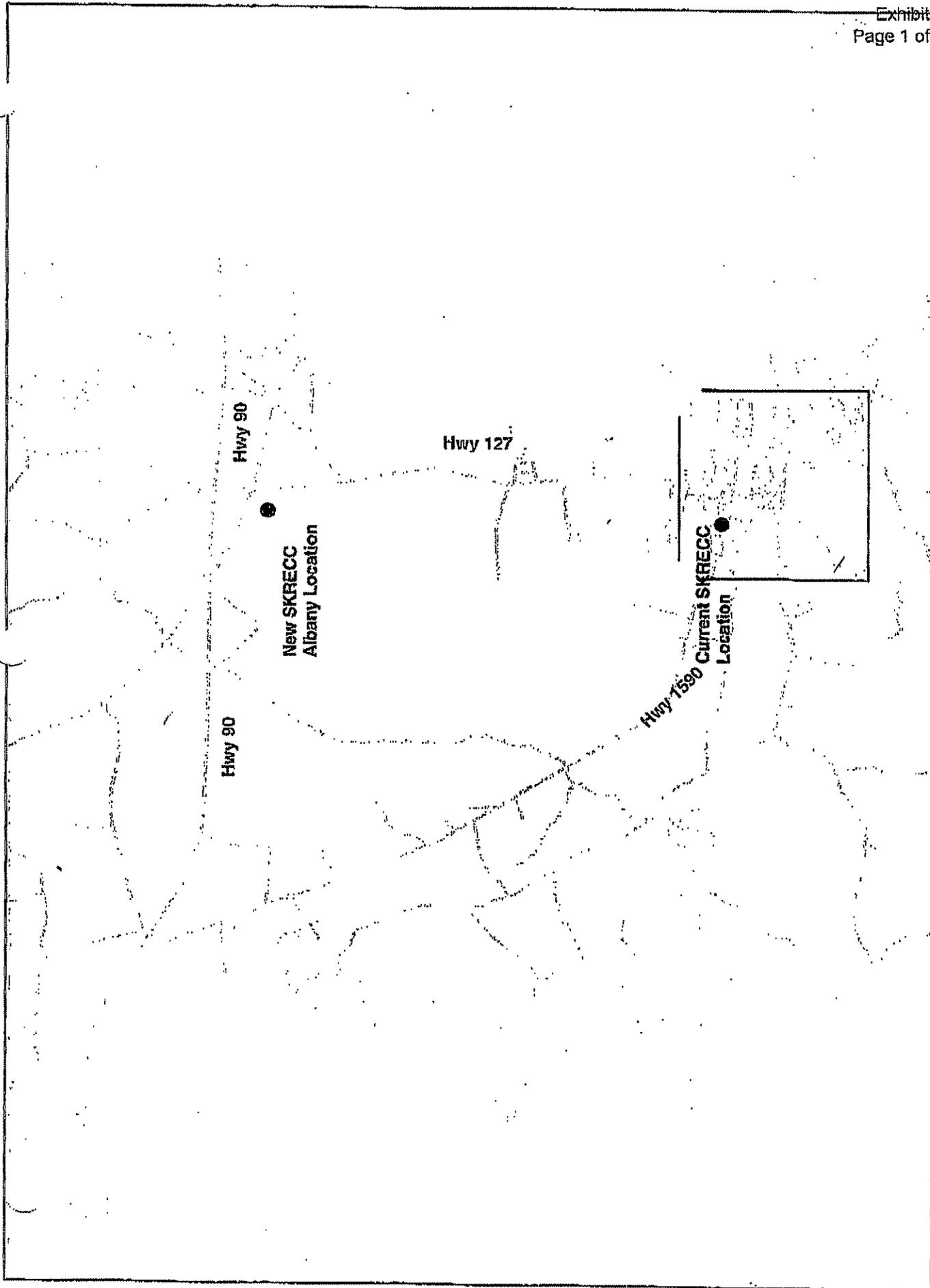
Exhibit 2
Page 2 of 2

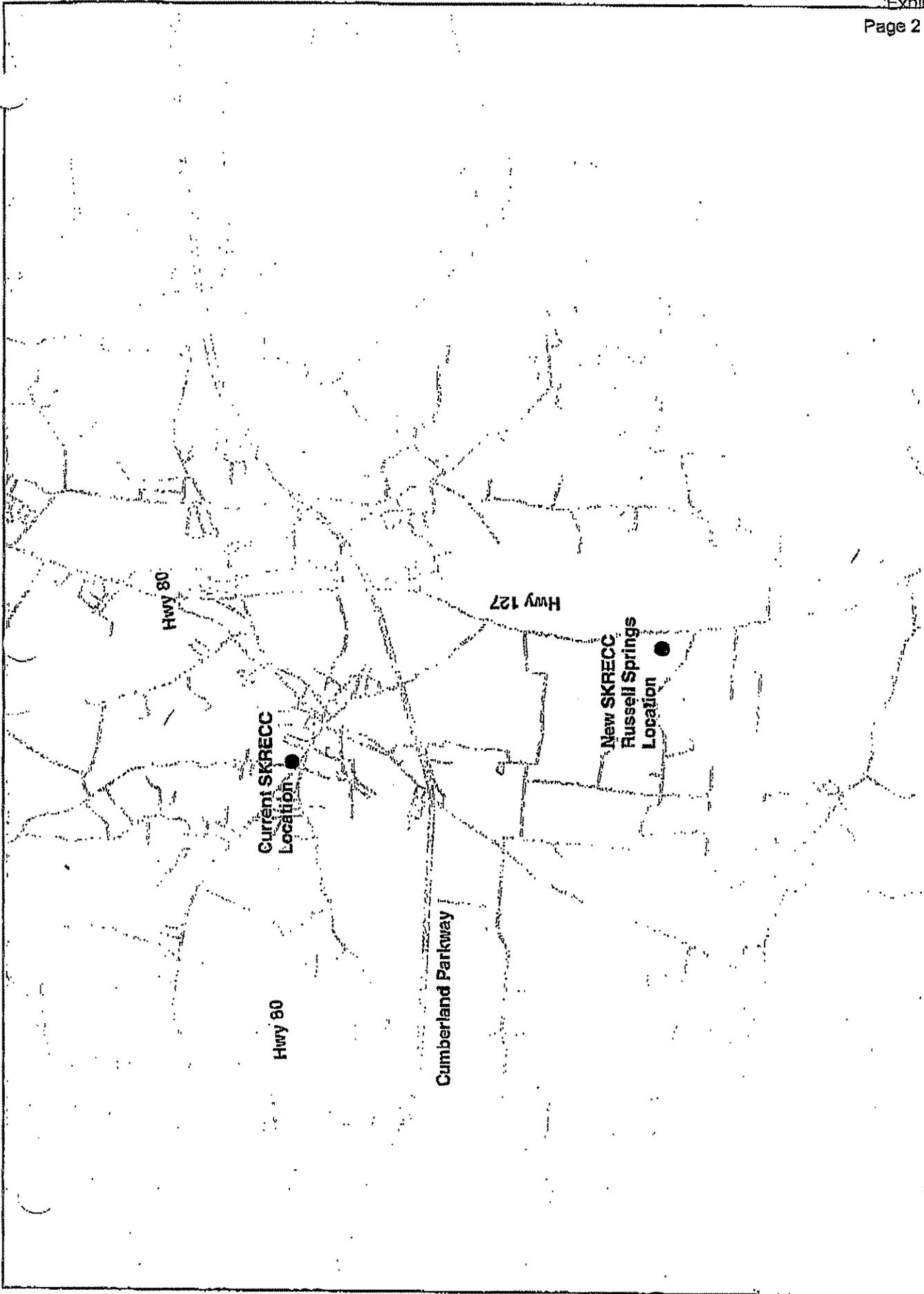
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

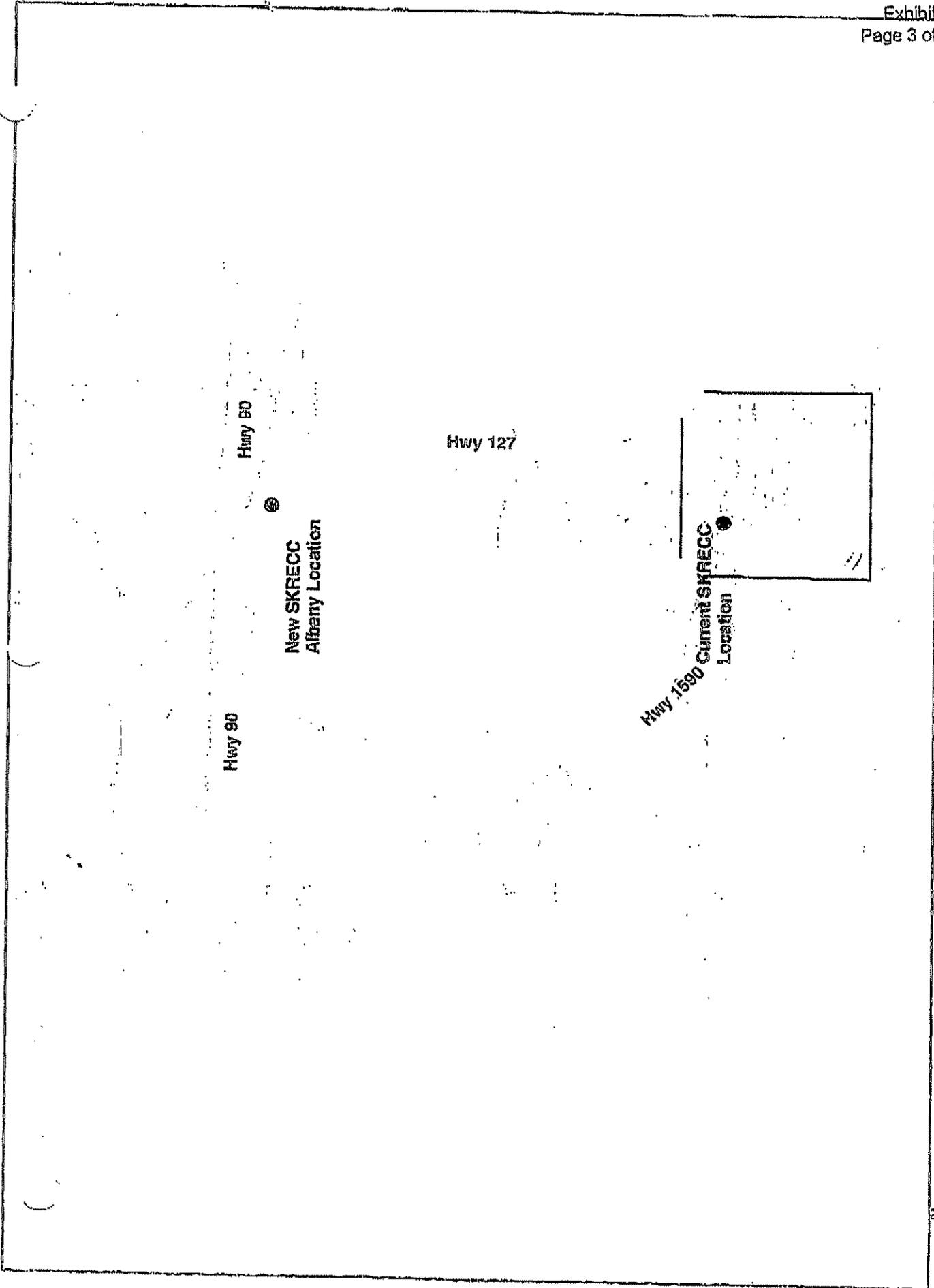
Space needed for private matters pertaining to members or employees where confidentiality is an important consideration is minimal.

Daily cash receipts counts are open to view by others including customers and other employees when it should be done in private

The increase in technology applications and uses by South Kentucky's outside personnel has created the need for additional work space for the outside personnel to maintain their computers and similar equipment.





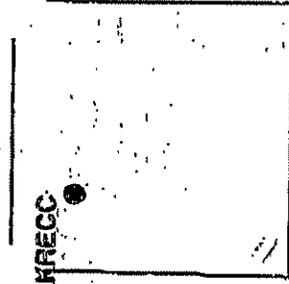


Hwy 90



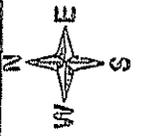
New SKRECC
Albany Location

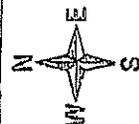
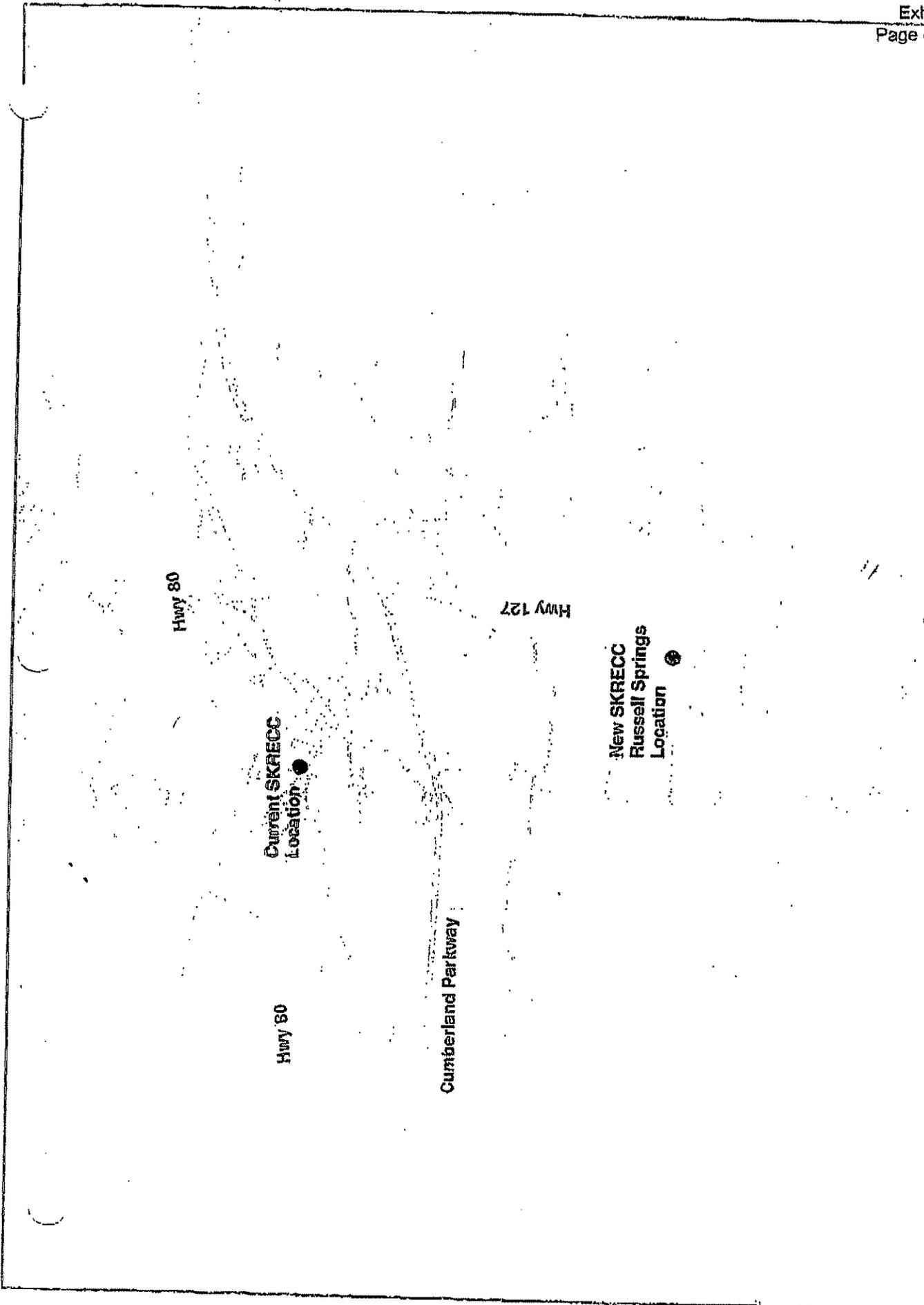
Hwy 127

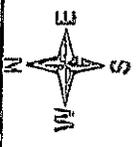
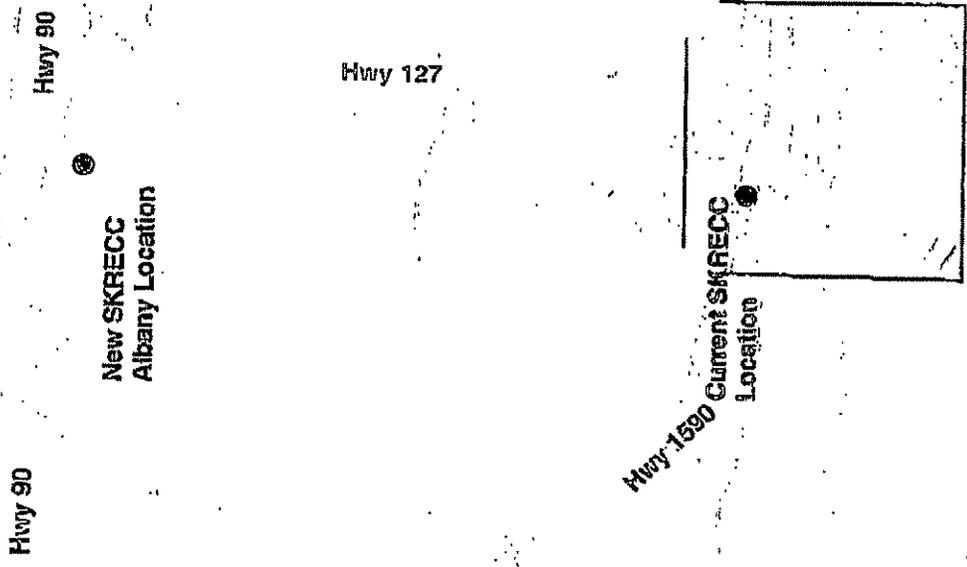


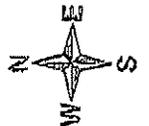
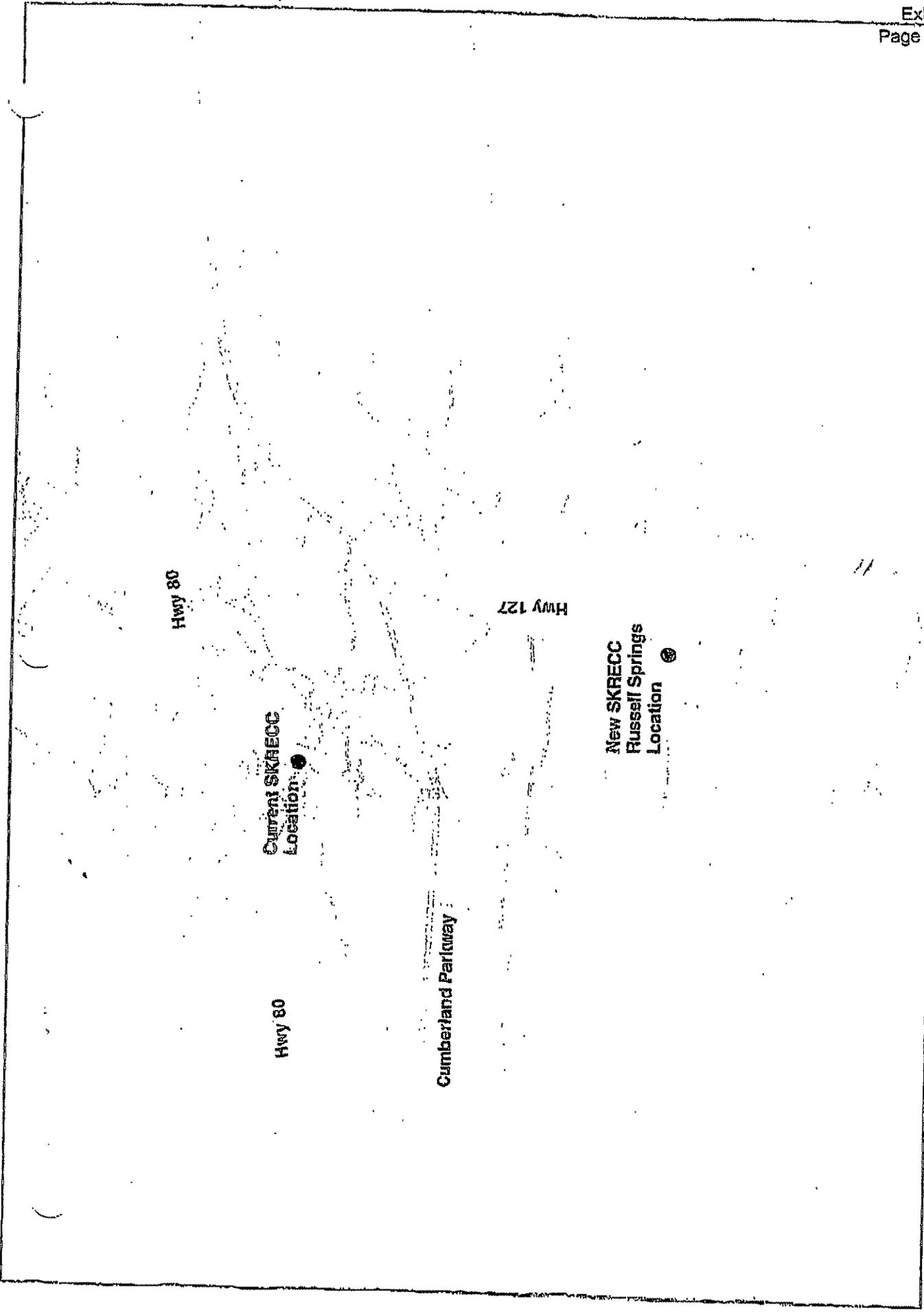
Hwy 1690 Current SKRECC
Location

Hwy 90









**SOUTH KENTUCKY RECC
SOMERSET, KY**

Exhibit 4
Page 1 of 1

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

FINANCING PLAN FOR NEW DISTRICT OFFICES

South Kentucky RECC plans to finance the construction of the new district offices in Russell Springs and Albany, Kentucky through the United States Department of Agriculture's Rural Development Electric Programs ("RDEP"). The cost of these new district offices will be included as a part of the Cooperative work plan. The funding of this work plan will be through RD-US Guaranteed Loan Program which is financed by Federal Finance Bank ("FFB"). RD-US is full aware of the Cooperative's plan to finance these new facilities through the Guaranteed Loan Program.

South Kentucky has not fully determined whether to use short term or long term funds from FFB due to the recent increases in overall interest rates. The FFB financing will give South Kentucky the option to lock in a long term rate at the most opportune time.

**SOUTH KENTUCKY RECC
SOMERSET, KY**

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

ESTIMATED ANNUAL COST TO OPERATE THESE FACILITIES

	<u>Russell Springs</u>	<u>Albany</u>
Depreciation	\$ 58,900	\$ 58,900
Insurance	17,100	17,100
Property Taxes	10,500	10,500
Electric Utilities	12,000	12,000
Water Utilities	1750	1,750
General Maintenance	<u>32500</u>	<u>32,500</u>
Estimated Total Annual Cost	<u>\$ 132,750</u>	<u>\$ 132,750</u>

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

DESCRIPTION OF PROPOSED FACILITIES

COST ESTIMATE:

The estimated cost for each of the proposed new district offices is provided below:

General construction with site and masonry	\$ 1,303,318
Plumbing/HVAC/GEO	291,750
Electrical	<u>168,580</u>
	\$ 1,763,648
Phone, Furniture, Security, Data/Voice Cable, Water & Sewer Hookup, etc.	<u>156,723</u>
	\$ 1,920,371
Contingency - 5%	96,019
Architects & Engineer's Fees	<u>152,000</u>
Total Cost	<u><u>\$ 2,168,390</u></u>

PROPOSED FACILITIES FOR ALBANY AND RUSSELL SPRINGS

The land area that these new district offices will be sited on will contain an area of approximately four (4) to five (5) acres. A one-story, 16,000 square foot building consisting of two (2) major segments including 6,550 square feet for office facilities and 9,450 square feet for service facilities. These two areas will be separated by a three (3) hour concrete masonry firewall..

The office facilities will be constructed as follows:

1. Concrete spread footings and foundation walls
2. The floors will be concrete slab or grade

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

3. Exterior walls are composite masonry, load-gearing walls with metal stud furring and gypsum board on the interior. The exterior walls will have a insulation factor of at least R-19.
4. The roof will be steep-slope standing seam metal roof panels, over wood sheathing, over engineered wood ruses. The roof structure will have an insulation value of at least R-38.
5. The interior partitions will be metal studs and gypsum board.
6. The ceilings will be suspended acoustical ceiling tile systems.

The service facility will be constructed as follows:

1. Concrete spread footings and foundations walls. Retaining walls will be used at depressed interior docks.
2. The floors will be concrete slabs on grade.
3. The exterior walls are factory finished metal panels, applied over a pre-engineered metal building frame system, with exposed vinyl faced insulation. The exterior walls will have an insulation value of at least R-19.
4. The roof will be low-sloped metal roof panels, applied over a pre-engineered frame systems, with exposed vinyl faced insulation. The roof structure will have an insulation value of at least R-38.

The overall facility will have the following mechanical, electrical, plumbing and site construction.

1. The heating, ventilating and air-conditioning system will utilize geothermal heat pumps and an on-site, 300 foot deep, geothermal well field.
2. Domestic water will serve the site from a water main owned by the local water company.
3. Both sites will discharge sanitary sewage into the local municipal sewer systems, by either a gravity flow sewers or pump stations/force mains.
4. Storm water will be collected on each site and discharged into an existing creek, swale or culvert, with care being taken not to impact neighboring properties.
5. Electrical power will be supplied from off-site by South Kentucky. The service will be 208-volt, three phase service. A back-up generator will be relocated from the existing building, and installed to supply emergency power to critical operations and emergency lighting.

**SOUTH KENTUCKY RECC
SOMERSET, KY**

Exhibit 7
Page 1 of 18

APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY

**IMPACT OF THE PROPOSED FACILITIES ON THE FINANCIAL CONDITION
OF SOUTH KENTUCKY RECC**

To analyze the potential financial impact of these facilities upon South Kentucky RECC, a financial forecast was developed for South Kentucky utilizing two (2) different scenarios. The first scenario was the development of a financial forecast which excluded the construction of the new facilities proposed in this application. The second scenario was the development of a financial forecast that included these facilities.

Both of the financial forecasts cover a ten year period and in both cases, South Kentucky is operating with positive margins for the ten year period except for the first year. The results associated with the increase in revenue granted in Case No. 2005-00450 have been integrated into the forecast of revenue for both cases. In both forecasts, South Kentucky will most probably be looking at an increase in its current base rates near the end of the forecast period.

Enclosed as pages 2 through 13 of this exhibit is the Statement of Operations, the Balance Sheet, the Source and Application of Funds, and Key Financial Indicators for both financial forecasts. Pages 13 through 17 of this filing includes a direct comparison of the results for key information from both forecasts. Page 18 of this exhibit provides the key assumptions used in this forecast.

**SOUTH KENTUCKY
RURAL ELECTRIC COOPERATIVE**

**TEN YEAR FINANCIAL FORECAST
2006 - 2015**

**CASE A
WITHOUT NEW BUILDINGS**

PREPARED AUGUST 2006

**SOUTH KENTUCKY RECC
SOMERSET, KY
TEN YEAR FINANCIAL FORECAST**

Schedule A
CASE A

Statement of Operations

<u>Revenue</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue from Current Rates	87,771,923	94,728,505	97,586,055	101,118,459	104,666,475	107,604,462	110,606,244	113,712,655	117,370,150	120,387,054
Increases for Distribution Costs	0	0	0	0	0	0	0	0	0	0
Increases for Purchased Power	5,191,300	6,459,184	4,485,809	2,088,107	3,850,288	5,122,551	3,589,709	4,059,449	6,261,495	7,953,229
Total Revenue	92,963,223	101,187,689	102,071,864	103,206,567	108,516,764	112,727,013	114,195,953	117,772,104	123,631,645	128,340,283
<u>Expenses</u>										
Cost of Purchased Power	68,948,558	71,670,376	73,877,075	71,892,886	76,194,734	79,479,816	80,040,329	82,646,071	87,454,229	91,206,234
Gross Margin	24,014,665	29,517,313	28,194,789	31,313,680	32,322,029	33,247,198	34,155,625	35,126,034	36,177,415	37,134,049
Distribution O&M	8,246,965	8,714,251	9,195,555	9,691,298	10,201,914	10,727,848	11,269,560	11,827,523	12,402,225	12,994,169
Consumer Accounts Expenses	3,590,964	3,650,885	3,722,628	3,798,195	3,873,763	3,948,982	4,024,376	4,099,944	4,175,685	4,251,716
Administrative & General	3,396,710	3,589,172	3,787,409	3,991,593	4,201,902	4,418,520	4,641,638	4,871,448	5,108,153	5,351,959
Depreciation	4,320,254	4,565,046	4,817,182	5,076,882	5,344,373	5,619,889	5,903,670	6,195,965	6,497,029	6,807,124
Tax Expense	84,782	89,586	94,534	99,631	104,880	110,287	115,858	121,592	127,500	133,586
Operating Margins before Interest	4,374,989	8,908,372	6,577,481	8,656,081	8,595,197	8,421,671	8,200,525	8,009,562	7,866,823	7,595,495
Interest Expense	4,750,674	5,033,270	5,305,163	5,578,637	5,837,192	6,094,345	6,351,942	6,638,026	6,898,278	7,185,434
Operating Margins after Interest	(375,685)	3,875,102	1,272,317	3,077,444	2,758,006	2,327,326	1,848,583	1,371,535	968,545	410,061
Non-operating Margins	195,376	230,958	354,550	437,023	477,458	508,958	528,048	533,832	526,941	517,748
Other Capital Credits	77,937	75,330	71,790	68,057	64,502	60,625	56,645	55,401	51,497	48,342
G&T Capital Credits	0	0	0	0	0	0	0	0	0	0
Net Margins	(102,371)	4,181,390	1,698,657	3,582,524	3,299,966	2,896,919	2,433,276	1,960,768	1,546,983	976,151
Op-TIER	0.92	1.77	1.24	1.55	1.47	1.38	1.29	1.21	1.14	1.06
TIER	0.98	1.83	1.32	1.64	1.57	1.48	1.38	1.30	1.22	1.14

**SOUTH KENTUCKY RECC
SOMERSET, KENTUCKY**

Schedule B
CASE A

TEN YEAR FINANCIAL FORECAST

Balance Sheet

<u>Assets</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total Utility Plant in Service	155,924,288	164,759,195	173,859,149	183,232,101	192,886,243	202,830,008	213,072,086	223,621,427	234,487,248	245,879,043
Accumulated Depreciation	34,220,525	36,851,559	39,676,708	42,701,796	45,932,822	49,375,962	53,037,582	56,924,234	61,042,671	65,399,845
Net Plant	121,703,763	127,907,636	134,182,441	140,530,305	146,953,421	153,454,046	160,034,504	166,697,192	173,444,577	180,279,198
Current Assets	15,397,231	17,727,489	17,480,935	19,098,332	20,358,739	21,121,936	21,353,272	21,077,646	20,709,928	19,995,847
Other Property & Investments	22,053,102	22,128,432	22,200,222	22,268,279	22,332,781	22,393,406	22,450,051	22,505,452	22,556,949	22,604,593
Other Assets and Deferred Debits	768,705	768,705	768,705	768,705	768,705	768,705	768,705	768,705	768,705	768,705
Total Assets	159,922,801	168,532,262	174,632,303	182,665,621	190,413,646	197,738,093	204,606,533	211,046,996	217,480,158	223,648,343
<u>Liabilities and Equity</u>										
Distribution Equity	30,502,730	33,956,484	34,875,698	37,664,992	40,129,888	42,154,764	43,685,623	44,721,012	45,327,084	45,353,234
G&T Capital Credits	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351
Total Equity and Margins	48,509,081	51,962,835	52,882,049	55,671,343	58,136,239	60,161,115	61,691,974	62,727,363	63,333,435	63,359,585
Long Term Debt - RUS	82,004,465	87,690,075	93,431,157	99,257,542	105,125,363	111,026,716	116,956,533	122,901,751	129,237,365	135,656,083
Long Term Debt - Other	11,708,469	11,178,565	10,618,309	10,035,949	9,451,256	8,847,473	8,257,239	7,719,095	7,208,571	6,729,889
Total Long Term Debt	93,712,933	98,868,640	104,049,467	109,293,491	114,576,620	119,874,191	125,213,772	130,620,846	136,445,936	142,385,971
Current Liabilities & Other	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787
Total Liabilities and Equity	159,922,801	168,532,262	174,632,303	182,665,621	190,413,646	197,738,093	204,606,533	211,046,996	217,480,158	223,648,343

**SOUTH KENTUCKY RECC
SOMERSET, KY**

Schedule C
CASE A

TEN YEAR FINANCIAL FORECAST

Source and Application of Funds

Source of Funds	2006 \$\$	2007 \$\$	2008 \$\$	2009 \$\$	2010 \$\$	2011 \$\$	2012 \$\$	2013 \$\$	2014 \$\$	2015 \$\$
Current Assets BOY	16,937,260	16,704,398	19,034,656	18,788,102	20,405,499	21,665,906	22,429,103	22,660,439	22,384,813	22,017,095
Cash From Operations										
Margins	(102,371)	4,181,390	1,698,657	3,582,524	3,299,966	2,896,919	2,433,276	1,960,768	1,546,983	976,151
Interest	4,760,674	5,033,270	5,305,163	5,578,637	5,837,192	6,094,345	6,351,942	6,638,026	6,898,278	7,185,434
Depreciation	4,320,254	4,585,046	4,817,182	5,076,882	5,344,373	5,619,889	5,903,670	6,195,965	6,497,029	6,807,124
Less: Capital Credits Allocated	77,937	75,330	71,790	68,057	64,502	60,625	56,645	55,401	51,497	48,342
G&T Capital Credits Paid	-	-	-	-	-	-	-	-	-	-
Plus Loan Funds	8,364,209	7,538,244	7,764,391	7,997,323	8,237,242	8,484,360	8,738,890	9,001,057	9,271,089	9,549,222
Total Source of Funds	34,192,089	37,947,018	38,548,260	40,955,412	43,059,771	44,700,794	45,800,237	46,400,855	46,546,695	46,486,684
Application of Funds										
Capital Credits Retired	0	727,636	779,443	793,231	835,070	872,044	902,417	925,380	940,910	950,002
Internal Funds Investments in Plant	2,091,052	3,230,676	3,327,596	3,427,424	3,530,247	3,636,154	3,745,239	3,857,596	3,973,324	4,092,524
Loan Funds Invested in Plant	8,364,209	7,538,244	7,764,391	7,997,323	8,237,242	8,484,360	8,738,890	9,001,057	9,271,089	9,549,222
Debt Service	7,032,430	7,415,807	7,888,728	8,331,935	8,791,306	9,279,133	9,753,252	10,232,009	10,344,277	10,591,923
Total Application of Funds	17,487,691	18,912,362	19,760,157	20,549,913	21,393,865	22,271,690	23,139,798	24,016,042	24,529,600	25,183,569
Current Assets EOY	16,704,398	19,034,656	18,788,102	20,405,499	21,665,906	22,429,103	22,660,439	22,384,813	22,017,095	21,303,014

**SOUTH KENTUCKY RECC
SOMERSSET, KY
TEN YEAR FINANCIAL FORECAST**

Key Financial Indicators

CAPITAL STRUCTURE		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
A. Capital Structure											
Equity		48,509,081	51,962,835	52,682,049	55,671,343	58,135,239	60,161,115	61,691,674	62,727,363	63,333,435	63,359,585
Debt		93,712,933	98,668,640	104,049,467	109,293,491	114,576,620	119,676,191	123,213,772	130,620,646	136,445,938	142,587,971
Total		142,222,014	150,631,475	156,931,516	164,964,834	172,712,859	180,037,306	185,905,445	193,348,009	199,779,371	205,947,556
B. Return on Capital											
Return on Capital		3.27%	6.11%	4.68%	5.55%	5.29%	4.99%	4.70%	4.45%	4.23%	3.96%
Return on Equity		-0.21%	8.05%	3.21%	6.44%	5.68%	4.82%	3.94%	3.13%	2.44%	1.54%
Return on Debt		5.07%	5.09%	5.10%	5.10%	5.09%	5.08%	5.07%	5.06%	5.06%	5.04%
C. Equity to Asset Ratio											
Equity to Asset Ratio		30.33%	30.63%	30.28%	30.46%	30.53%	30.42%	30.15%	29.72%	29.12%	28.33%
D. Key Financial Ratios											
Return on Capital		3.27%	6.11%	4.68%	5.55%	5.29%	4.99%	4.70%	4.45%	4.23%	3.96%
Return on Equity		-0.21%	8.05%	3.21%	6.44%	5.68%	4.82%	3.94%	3.13%	2.44%	1.54%
Return on Debt		5.07%	5.09%	5.10%	5.10%	5.09%	5.08%	5.07%	5.06%	5.06%	5.04%
Equity to Asset Ratio		30.33%	30.63%	30.28%	30.46%	30.53%	30.42%	30.15%	29.72%	29.12%	28.33%
Margins											
Return on Capital		(102.971)	4,161,390	1,698,657	2,562,524	3,299,966	2,896,919	2,433,276	1,960,768	1,546,383	976,151
Interest		4,750,674	5,033,270	5,305,163	5,578,637	5,837,192	6,094,345	6,351,942	6,638,028	6,898,278	7,185,434
Total		4,648,302	9,214,660	7,003,621	9,161,161	9,137,158	8,891,264	8,785,218	8,598,795	8,445,281	8,181,586
Tier Financial Ratios											
Tier		0.98	1.63	1.32	1.64	1.57	1.48	1.32	1.30	1.22	1.14
DSC		1.28	1.83	1.50	1.71	1.65	1.48	1.51	1.45	1.44	1.41
Tier without GTC's		0.98	1.53	1.22	1.64	1.57	1.48	1.36	1.30	1.22	1.14
Op Tier		0.92	1.77	1.24	1.55	1.47	1.38	1.29	1.21	1.14	1.08

**SOUTH KENTUCKY RECC
SOMERSET, KY**

Schedule E
CASE A

TEN YEAR FINANCIAL FORECAST

Debt and Capital Credits

<u>Debt</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>	<u>\$\$</u>
Debt at First of Year	87,630,480	93,712,933	98,888,640	104,049,467	109,293,491	114,576,820	119,876,191	125,213,772	130,620,846	136,445,936
Loan Funds	8,364,209	7,588,244	7,764,391	7,997,323	8,237,242	8,484,360	8,738,890	9,001,057	9,271,089	9,549,222
Interest Expense	4,750,674	5,033,270	5,305,163	5,578,637	5,837,192	6,094,346	6,351,942	6,638,026	6,898,278	7,185,434
Debt Payments	7,032,430	7,415,807	7,888,728	8,331,935	8,791,306	9,279,133	9,753,252	10,232,009	10,744,277	11,291,923
Debt at End of Year	93,712,933	98,888,640	104,049,467	109,293,491	114,576,820	119,876,191	125,213,772	130,620,846	136,445,936	142,588,669
<u>Equity</u>										
GT Equity BOY	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351
Plus: Allocations during Year	0	0	0	0	0	0	0	0	0	0
Less: Payments during Year	-	-	-	-	-	-	-	-	-	-
GT Equity EOY	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351
Distribution Equity BOY	30,605,101	30,582,730	33,956,484	34,875,698	37,664,992	40,129,888	42,154,764	43,685,623	44,721,012	45,327,084
Plus: Margins during Year	(102,371)	4,181,390	1,698,657	3,582,524	3,299,966	2,896,919	2,433,276	1,960,768	1,546,883	976,151
Plus: G&T Equity to Distribution	0	0	0	0	0	0	0	0	0	0
Less: Payments during Year	0	727,636	779,443	793,231	835,070	872,044	902,417	925,380	940,910	950,002
Distribution Equity EOY	30,502,730	33,956,484	34,875,698	37,664,992	40,129,888	42,154,764	43,685,623	44,721,012	45,327,084	45,353,234
Total Equity	48,509,081	51,962,835	52,882,049	55,671,343	58,136,239	60,161,115	61,691,974	62,727,363	63,333,435	63,359,565

**SOUTH KENTUCKY
RURAL ELECTRIC COOPERATIVE**

**TEN YEAR FINANCIAL FORECAST
2006 - 2015**

CASE B

**WITH NEW DISTRICT OFFICES FOR
ALBANY & RUSSELL SPRINGS**

PREPARED AUGUST 2006

**SOUTH KENTUCKY RECC
SOMERSET, KY
TEN YEAR FINANCIAL FORECAST**

Schedule A
CASE B

Statement of Operations

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$
<u>Revenue</u>										
Revenue from Current Rates	87,771,923	94,728,505	97,586,055	101,116,459	104,666,475	107,604,462	110,606,244	113,712,655	117,370,150	120,387,054
Increases for Distribution Costs	0	0	0	0	0	0	0	0	0	0
Increases for Purchased Power	5,191,300	6,459,184	4,485,809	2,088,107	3,850,288	5,122,551	3,589,709	4,059,449	6,261,495	7,953,229
Total Revenue	92,963,223	101,187,689	102,071,864	103,206,567	108,516,764	112,727,013	114,195,953	117,772,104	123,631,645	128,340,283
<u>Expenses</u>										
Cost of Purchased Power	68,948,558	71,670,376	73,877,075	71,892,886	76,194,734	79,479,816	80,040,329	82,646,071	87,454,229	91,206,234
Gross Margin	24,014,665	29,517,313	28,194,789	31,313,680	32,322,029	33,247,198	34,155,625	35,126,034	36,177,415	37,134,049
Distribution O&M	8,246,965	8,714,251	9,433,564	9,929,307	10,439,923	10,965,857	11,507,569	12,065,532	12,640,234	13,232,178
Consumer Accounts Expenses	3,590,964	3,650,885	3,722,628	3,798,195	3,873,763	3,948,982	4,024,376	4,099,944	4,175,685	4,251,716
Administrative & General	3,396,710	3,589,172	3,865,439	4,089,622	4,299,932	4,516,550	4,739,667	4,969,478	5,206,183	5,449,989
Depreciation	4,320,254	4,565,046	4,941,866	5,201,566	5,469,057	5,744,572	6,028,354	6,320,648	6,621,712	6,931,807
Tax Expense	84,782	89,586	96,981	102,077	107,327	112,734	118,303	124,039	129,947	136,032
Operating Margins before Interest	4,374,989	8,908,372	6,114,312	8,192,912	8,192,029	7,958,502	7,737,356	7,546,393	7,409,655	7,132,327
Interest Expense	4,750,674	5,033,270	5,364,502	5,697,316	5,955,669	6,211,147	6,466,716	6,750,694	7,008,759	7,293,646
Operating Margins after interest	(375,685)	3,875,102	749,810	2,495,596	2,176,360	1,747,355	1,270,641	795,700	394,895	(161,319)
Non-operating Margins	195,376	230,958	354,550	393,328	421,437	439,960	445,377	437,388	416,615	393,429
Other Capital Credits	77,937	75,330	71,790	68,057	64,502	60,625	56,645	55,401	51,497	48,342
G&T Capital Credits	0	0	0	0	0	0	0	0	0	0
Net Margins	(192,371)	4,181,390	1,176,150	2,956,982	2,662,300	2,247,941	1,772,662	1,288,489	863,008	280,452
Op-TIER	0.92	1.77	1.14	1.44	1.37	1.28	1.20	1.12	1.06	0.98
TIER	0.98	1.83	1.22	1.52	1.45	1.36	1.27	1.19	1.12	1.04

**SOUTH KENTUCKY RECC
SOMERSET, KENTUCKY**

Schedule B
CASE B

TEN YEAR FINANCIAL FORECAST

Balance Sheet

<u>Assets</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<u>\$\$</u>									
Total Utility Plant in Service	155,924,288	164,759,195	176,359,149	187,732,101	197,386,243	207,330,008	217,572,066	228,121,427	238,987,248	250,179,043
Accumulated Depreciation	34,220,525	36,851,559	39,801,391	42,951,163	46,306,871	49,874,695	53,660,998	57,672,334	61,915,454	66,397,311
Net Plant	121,703,763	127,907,636	138,557,758	144,780,939	151,079,371	157,455,313	163,911,068	170,449,093	177,071,794	183,781,732
Current Assets	15,397,231	17,727,489	15,733,111	16,857,487	17,598,416	17,815,062	17,495,521	16,664,618	15,737,149	14,458,766
Other Property & Investments	22,053,102	22,128,432	22,200,222	22,268,279	22,332,781	22,393,406	22,450,051	22,505,452	22,556,949	22,604,593
Other Assets and Deferred Debits	768,705	768,705	768,705	768,705	768,705	768,705	768,705	768,705	768,705	768,705
Total Assets	159,922,801	168,532,262	177,259,796	184,675,410	191,779,273	198,432,485	204,625,365	210,387,869	216,134,597	221,613,796
<u>Liabilities and Equity</u>										
Distribution Equity	30,502,730	33,956,484	34,353,191	36,524,780	38,369,113	39,771,422	40,677,418	41,085,650	41,062,277	40,456,700
G&T Capital Credits	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351
Total Equity and Margins	48,509,081	51,962,835	52,359,542	54,531,131	56,375,464	57,777,773	58,683,769	59,092,001	59,068,628	58,463,051
Long Term Debt - RUS	82,004,465	87,690,075	96,581,157	102,407,542	108,251,768	114,106,453	119,983,571	125,875,986	132,156,611	138,720,070
Long Term Debt - Other	11,708,469	11,178,565	10,618,309	10,035,949	9,451,256	8,847,473	8,257,239	7,719,095	7,208,571	6,729,689
Total Long Term Debt	93,712,933	98,868,640	107,199,467	112,443,491	117,703,022	122,953,926	128,240,809	133,595,081	139,365,182	145,449,959
Current Liabilities & Other	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787	17,700,787
Total Liabilities and Equity	159,922,801	168,532,262	177,259,796	184,675,410	191,779,273	198,432,485	204,625,365	210,387,869	216,134,597	221,613,796

**SOUTH KENTUCKY RECC
SOMERSET, KY**

Schedule C
CASE B

TEN YEAR FINANCIAL FORECAST

Source and Application of Funds

Source of Funds	2006 \$\$	2007 \$\$	2008 \$\$	2009 \$\$	2010 \$\$	2011 \$\$	2012 \$\$	2013 \$\$	2014 \$\$	2015 \$\$
Current Assets BOY	16,937,260	16,704,398	19,034,656	17,040,278	18,164,654	18,905,583	19,122,229	18,802,688	17,971,785	17,044,316
Cash From Operations										
Margins	(102,371)	4,181,390	1,176,160	2,956,982	2,062,300	2,247,941	1,772,662	1,288,489	863,008	280,452
Interest	4,750,674	5,033,270	5,364,502	5,697,315	5,955,669	6,211,147	6,466,716	6,750,694	7,008,759	7,293,646
Depreciation	4,320,254	4,565,046	4,941,866	5,201,566	5,469,057	5,744,572	6,028,354	6,320,648	6,621,712	6,931,807
Less: Capital Credits Allocated	77,937	75,330	71,790	68,057	64,502	60,625	56,645	55,401	51,497	48,342
G&T Capital Credits Paid	-	-	-	-	-	-	-	-	-	-
Plus Loan Funds	8,364,209	7,538,244	10,914,391	7,997,323	8,237,242	8,484,360	8,738,890	9,001,057	9,271,089	9,549,222
Total Source of Funds	34,192,089	37,947,018	41,359,775	38,825,407	40,424,419	41,532,978	42,072,206	42,108,174	41,684,856	41,051,101
<i>Application of Funds</i>										
Capital Credits Retired	0	727,636	779,443	785,393	817,957	845,532	866,667	880,257	886,380	886,029
Internal Funds Investments in Plant	2,091,052	3,230,676	4,677,596	3,427,424	3,530,247	3,636,154	3,745,239	3,857,596	3,973,324	4,092,524
Loan Funds Invested in Plant	8,364,209	7,538,244	10,914,391	7,997,323	8,237,242	8,484,360	8,738,890	9,001,057	9,271,089	9,549,222
Debt Service	7,032,430	7,415,807	7,948,067	8,450,613	8,933,380	9,444,603	9,918,722	10,397,479	10,509,747	10,757,393
Total Application of Funds	17,487,691	18,912,362	24,319,496	20,660,753	21,518,836	22,410,749	23,269,518	24,136,389	24,640,540	25,285,167
Current Assets EOY	16,704,398	19,034,656	17,040,278	18,164,654	18,905,583	19,122,229	18,802,688	17,971,785	17,044,316	15,765,933

**SOUTH KENTUCKY RECC
SOMERSET, KY**

Schedule D
CASE A

TEN YEAR FINANCIAL FORECAST

Key Financial Indicators

CAPITAL STRUCTURE	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	\$\$									
A. Capital Structure										
Equity	48,509,081	51,982,835	52,359,542	54,531,131	56,375,464	57,777,773	58,883,769	59,092,001	59,068,628	58,463,051
Debt	93,712,933	98,866,640	107,199,467	112,443,491	117,703,022	122,953,926	128,240,809	133,595,081	139,365,182	145,449,959
Total	142,222,014	150,831,475	159,559,009	166,974,623	174,078,486	180,731,699	186,924,578	192,687,082	198,433,810	203,913,009
Equity Capitalization Ratio	34.11%	34.45%	32.82%	32.66%	32.39%	31.97%	31.39%	30.67%	29.77%	28.67%
Debt Capitalization Ratio	65.89%	65.55%	67.18%	67.34%	67.61%	68.03%	68.61%	69.33%	70.23%	71.33%
B. Return on Capital										
Margins	(102,371)	4,181,390	1,176,150	2,956,882	2,662,300	2,247,941	1,772,662	1,288,489	863,008	280,452
Interest	4,750,674	5,033,270	5,364,502	5,697,315	5,955,669	6,211,147	6,466,716	6,750,694	7,008,759	7,293,646
Total	4,648,302	9,214,660	6,540,652	8,654,297	8,617,868	8,459,088	8,239,378	8,039,182	7,871,767	7,574,098
Return on Capital	3.27%	5.11%	4.10%	5.18%	4.95%	4.68%	4.41%	4.17%	3.97%	3.71%
Return on Equity	-0.21%	8.05%	2.25%	5.42%	4.72%	3.89%	3.02%	2.18%	1.46%	0.48%
Return on Debt	5.07%	5.09%	5.00%	5.07%	5.06%	5.05%	5.04%	5.05%	5.03%	5.01%
C. Equity to Asset Ratio	30.33%	30.83%	29.54%	29.53%	29.40%	29.12%	28.68%	28.09%	27.33%	26.38%
D. Key Financial Ratios										
TIER	0.98	1.83	1.22	1.52	1.45	1.36	1.27	1.19	1.12	1.04
DSC	1.28	1.86	1.44	1.64	1.58	1.50	1.44	1.38	1.38	1.35
TIER without GTCC's	0.98	1.83	1.22	1.52	1.45	1.36	1.27	1.19	1.12	1.04
Op TIER	0.92	1.77	1.14	1.44	1.37	1.28	1.20	1.12	1.06	0.98

**SOUTH KENTUCKY RECC
SOMERSET, KY**
TEN YEAR FINANCIAL FORECAST

Schedule E
CASE B

Debt and Capital Credits

<u>Debt</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt at First of Year	87,630,480	93,712,933	98,868,640	107,199,467	112,443,491	117,703,022	122,953,926	128,240,809	133,595,081	139,365,182
Loan Funds	8,364,209	7,538,244	10,814,391	7,997,323	8,237,242	8,484,360	8,738,890	9,001,057	9,271,039	9,548,222
Interest Expense	4,750,674	5,033,270	5,354,502	5,697,315	5,955,669	6,211,147	6,468,716	6,750,694	7,008,759	7,283,646
Debt Payments	7,032,430	7,415,807	7,848,057	8,450,613	8,833,380	9,444,603	9,918,722	10,397,479	10,509,747	10,757,393
Debt at End of Year	<u>93,712,933</u>	<u>98,868,640</u>	<u>107,199,467</u>	<u>112,443,491</u>	<u>117,703,022</u>	<u>122,953,926</u>	<u>128,240,809</u>	<u>133,595,081</u>	<u>139,365,182</u>	<u>145,450,657</u>
Equity										
GT Equity BOY	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351	18,006,351
Plus: Allocations during Year	0	0	0	0	0	0	0	0	0	0
Less: Payments during Year	-	-	-	-	-	-	-	-	-	-
GT Equity EOY	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>	<u>18,006,351</u>
Distribution Equity BOY	30,605,101	30,502,730	33,956,484	34,353,191	36,524,780	38,369,113	39,771,422	40,677,418	41,085,650	41,062,277
Plus: Margins during Year	(102,371)	4,181,390	1,176,150	2,956,882	2,862,300	2,247,941	1,772,652	1,288,489	863,008	280,452
Plus: G&T Equity to Distribution	0	0	0	0	0	0	0	0	0	0
Less: Payments during Year	0	727,636	779,443	785,393	817,957	845,632	866,657	880,257	885,380	886,029
Distribution Equity EOY	<u>30,502,730</u>	<u>33,956,484</u>	<u>34,353,191</u>	<u>36,524,780</u>	<u>38,369,113</u>	<u>39,771,422</u>	<u>40,677,418</u>	<u>41,085,650</u>	<u>41,062,277</u>	<u>40,456,700</u>

SOUTH KEY ROCKY RECC

**COMPARISON OF KEY STATISTICS AND INFORMATION
FROM CURRENT FINANCIAL FORECASTS**

Exhibit 7
Page 14 of 18

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Total Revenue</u>					
Base Forecast	92,963,223	101,187,689	102,071,864	103,206,567	108,516,764
Forecast w/New Bldg.	92,963,223	101,187,689	102,071,864	103,206,567	108,516,764
Difference	-	-	-	-	-
<u>Total Costs</u>					
Base Forecast	93,338,908	97,312,587	100,799,547	100,129,123	105,758,758
Forecast w/New Bldg.	93,338,908	97,312,587	101,322,054	100,710,969	106,340,403
Difference	-	-	522,507	581,846	581,645
<u>Margins</u>					
Base Forecast	(102,371)	4,181,390	1,698,657	3,582,524	3,299,966
Forecast w/New Bldg.	(102,371)	4,181,390	1,176,150	2,956,982	2,662,300
Difference	-	-	(522,507)	(625,542)	(637,666)
<u>TIER</u>					
Base Forecast	0.98	1.83	1.32	1.64	1.57
Forecast w/New Bldg.	0.98	1.83	1.22	1.52	1.45
Difference	-	-	(0.10)	(0.12)	(0.12)
<u>DSC</u>					
Base Forecast	1.28	1.86	1.50	1.71	1.65
Forecast w/New Bldg.	1.28	1.86	1.44	1.64	1.58
Difference	-	-	(0.05)	(0.07)	(0.07)

SOUTH KENTUCKY RECC

**COMPARISON OF KEY STATISTICS AND INFORMATION
FROM CURRENT FINANCIAL FORECASTS**

Exhibit 7
Page 15 of 18

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Total Revenue</u>					
Base Forecast	112,727,013	114,195,953	117,772,104	123,631,645	128,340,283
Forecast w/New Bldg.	112,727,013	114,195,953	117,772,104	123,631,645	128,340,283
Difference	-	-	-	-	-
<u>Total Costs</u>					
Base Forecast	110,399,688	112,347,370	116,400,569	122,663,100	127,930,222
Forecast w/New Bldg.	110,979,658	112,925,312	116,976,405	123,236,749	128,501,602
Difference	579,970	577,942	575,836	573,650	571,380
<u>Margins</u>					
Base Forecast	2,896,919	2,433,276	1,960,768	1,546,983	976,151
Forecast w/New Bldg.	2,247,941	1,772,662	1,288,489	863,008	280,452
Difference	(648,978)	(660,614)	(672,280)	(683,975)	(695,700)
<u>TIER</u>					
Base Forecast	1.48	1.38	1.30	1.22	1.14
Forecast w/New Bldg.	1.36	1.27	1.19	1.12	1.04
Difference	(0.11)	(0.11)	(0.10)	(0.10)	(0.10)
<u>DSC</u>					
Base Forecast	1.57	1.51	1.45	1.44	1.41
Forecast w/New Bldg.	1.50	1.44	1.38	1.38	1.35
Difference	(0.07)	(0.07)	(0.06)	(0.07)	(0.06)

SOUTH KE UCKY RECC

**COMPARISON OF KEY STATISTICS AND INFORMATION
FROM CURRENT FINANCIAL FORECASTS**

Exhibit 7
Page 16 of 18

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Net Plant</u>					
Base Forecast	121,703,763	127,907,636	134,182,441	140,530,305	146,953,421
Forecast w/New Bldg.	121,703,763	127,907,636	138,557,758	144,780,939	151,079,371
Difference	-	-	4,375,317	4,250,634	4,125,950
<u>Distribution Equity</u>					
Base Forecast	30,502,730	33,956,484	34,875,698	37,664,992	40,129,888
Forecast w/New Bldg.	30,502,730	33,956,484	34,353,191	36,524,780	38,369,113
Difference	-	-	(522,507.42)	(1,140,212)	(1,760,775)
<u>Total Utility Plant</u>					
Base Forecast	155,924,288	164,759,195	173,859,149	183,232,101	192,886,243
Forecast w/New Bldg.	155,924,288	164,759,195	178,359,149	187,732,101	197,386,243
Difference	-	-	4,500,000	4,500,000	4,500,000
<u>Long Term Debt</u>					
Base Forecast	93,712,933	98,868,640	104,049,467	109,293,491	114,576,620
Forecast w/New Bldg.	93,712,933	98,868,640	107,199,467	112,443,491	117,703,022
Difference	-	-	3,150,000	3,150,000	3,126,403
<u>Equity Capitalization Ratio</u>					
Base Forecast	34.11%	34.45%	33.70%	33.75%	33.66%
Forecast w/New Bldg.	34.11%	34.45%	32.82%	32.66%	32.39%
Difference	0.00%	0.00%	-0.88%	-1.09%	-1.28%
<u>Capital Credits Paid</u>					
Base Forecast	0	727,636	779,443	793,231	835,070
Forecast w/New Bldg.	0	727,636	779,443	785,393	817,967
Difference	-	-	-	(7,838)	(17,103)

SOUTH KE UCKY RECC

**COMPARISON OF KEY STATISTICS AND INFORMATION
FROM CURRENT FINANCIAL FORECASTS**

Exhibit 7
Page 17 of 18

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Net Plant</u>					
Base Forecast	153,454,046	160,034,504	166,697,192	173,444,577	180,279,198
Forecast w/New Bldg.	157,455,313	163,911,088	170,449,093	177,071,794	183,781,732
Difference	4,001,267	3,876,584	3,751,901	3,627,217	3,502,534
<u>Distribution Equity</u>					
Base Forecast	42,154,764	43,685,623	44,721,012	45,327,084	45,353,234
Forecast w/New Bldg.	39,771,422	40,677,418	41,085,650	41,062,277	40,456,700
Difference	(2,383,342)	(3,008,206)	(3,635,362)	(4,264,807)	(4,896,535)
<u>Total Utility Plant</u>					
Base Forecast	202,830,008	213,072,086	223,621,427	234,487,248	245,679,043
Forecast w/New Bldg.	207,330,008	217,572,086	228,121,427	238,987,248	250,179,043
Difference	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
<u>Long Term Debt</u>					
Base Forecast	119,876,191	125,213,772	130,620,846	136,445,936	142,587,971
Forecast w/New Bldg.	122,953,926	128,240,809	133,595,081	139,365,182	145,449,959
Difference	3,077,734	3,027,038	2,974,235	2,919,246	2,861,988
<u>Equity Capitalization Ratio</u>					
Base Forecast	33.42%	33.01%	32.44%	31.70%	30.76%
Forecast w/New Bldg.	31.97%	31.39%	30.67%	29.77%	28.67%
Difference	-1.45%	-1.61%	-1.78%	-1.93%	-2.09%
<u>Capital Credits Paid</u>					
Base Forecast	872,044	902,417	925,380	940,910	950,002
Forecast w/New Bldg.	845,632	866,667	880,257	886,380	886,029
Difference	(26,412)	(35,750)	(45,123)	(54,530)	(63,972)

**KEY ASSUMPTIONS
FINANCIAL ANALYSIS OF NEW BUILDINGS**

- 1 No increase in retail rates has been forecasted in this financial forecast. However, financial prudence would dictate that South Kentucky would need to look at that potential near the end of the forecast period whether new district offices are constructed or not.
- 2 Average revenue per kWh for 2005 is the basis for future revenue estimates for all rate classes.
- 3 No G&T capital credits have been allocated to South Kentucky.
- 4 Interest rates on new borrowing is estimated to be 5%.
- 5 All expansion in utility plant is funded 70% by debt and 30% by equity.
- 6 Distribution capital credits are paid on the basis of 1.5% of the previous year's equity level including GTCC's.
- 7 All operating expenses are based on the historical information for 2003, 2004 and 2005.
- 8 Plant expansion estimates and plant retirements are based on actual experience for 2003-2005 and the current work plan.
- 9 Load growth is based on South Kentucky's most recent load forecast.
- 10 Purchased power costs are based on EKPC's Financial Forecast approved in January 2006.
- 11 All non-operating margins are based on general fund levels.
- 12 All other electric revenue is based on total revenue from rates.
- 13 The cost of the new District Offices is estimated to be \$2,250,000 each.

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

IMPACT OF THE PROPOSED BUILDINGS UPON THE RATES TO MEMBERS

South Kentucky has developed a ten year financial forecast that contains two scenarios. The first scenario provides an estimate of the financial conditions for the period of 2006 through 2015 without these new district offices. The second scenario provides an estimate of the financial condition of South Kentucky for the same period and includes these two buildings. No estimate of cost savings resulting from these new district offices has been modeled in these forecast including the new buildings

In both financial forecast scenarios, a rate application is needed by South Kentucky near the end of the forecast period. These new buildings may create the need to move the rate application forward by one year or increase the amount requested if a rate application is not moved forward.

**SOUTH KENTUCKY RECC
SOMERSET, KY**

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

DISPOSAL OF EXISTING PROPERTIES

Neither of the current facilities at Albany and Russell Springs will be needed after the construction and occupation of the new facilities. These two pieces of property will be placed on the open market at prices consistent with their appraised values. Neither one of these facilities will be vacated prior to the completion of the new facilities even if sold before the new facilities are occupied. Stipulations will be placed in the sales contract to insure that South Kentucky's normal business affairs will continue in a normal manner and to allow for a smooth transition to the new facilities.

The appraised value of these buildings are listed below:-

Albany, KY	Office and Buildings	\$ 100,000
Russell Springs, KY	Office and Buildings	\$ 150,000

When these properties are sold, the sale proceeds will be to reduce the borrowings on plant additions as required by RDEP. The proceeds will be deposited in South Kentucky's Construction Fund Account and Reported on RUS Form 595, Financial Requirement and Expenditure Statement.

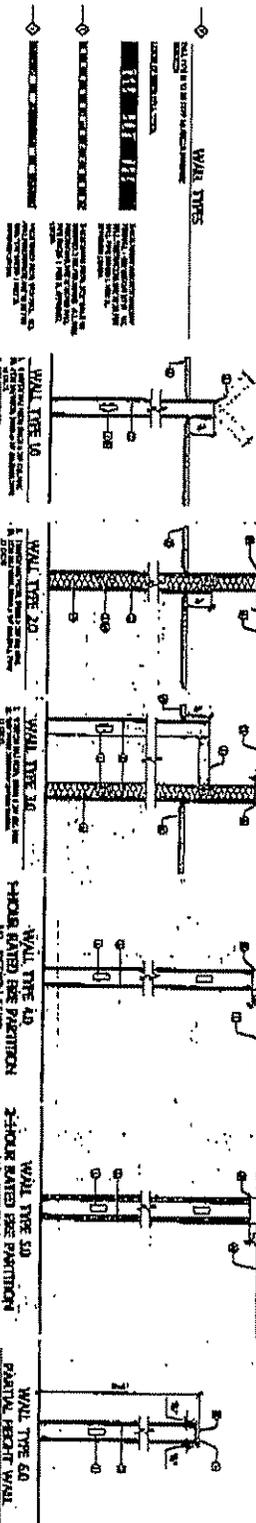
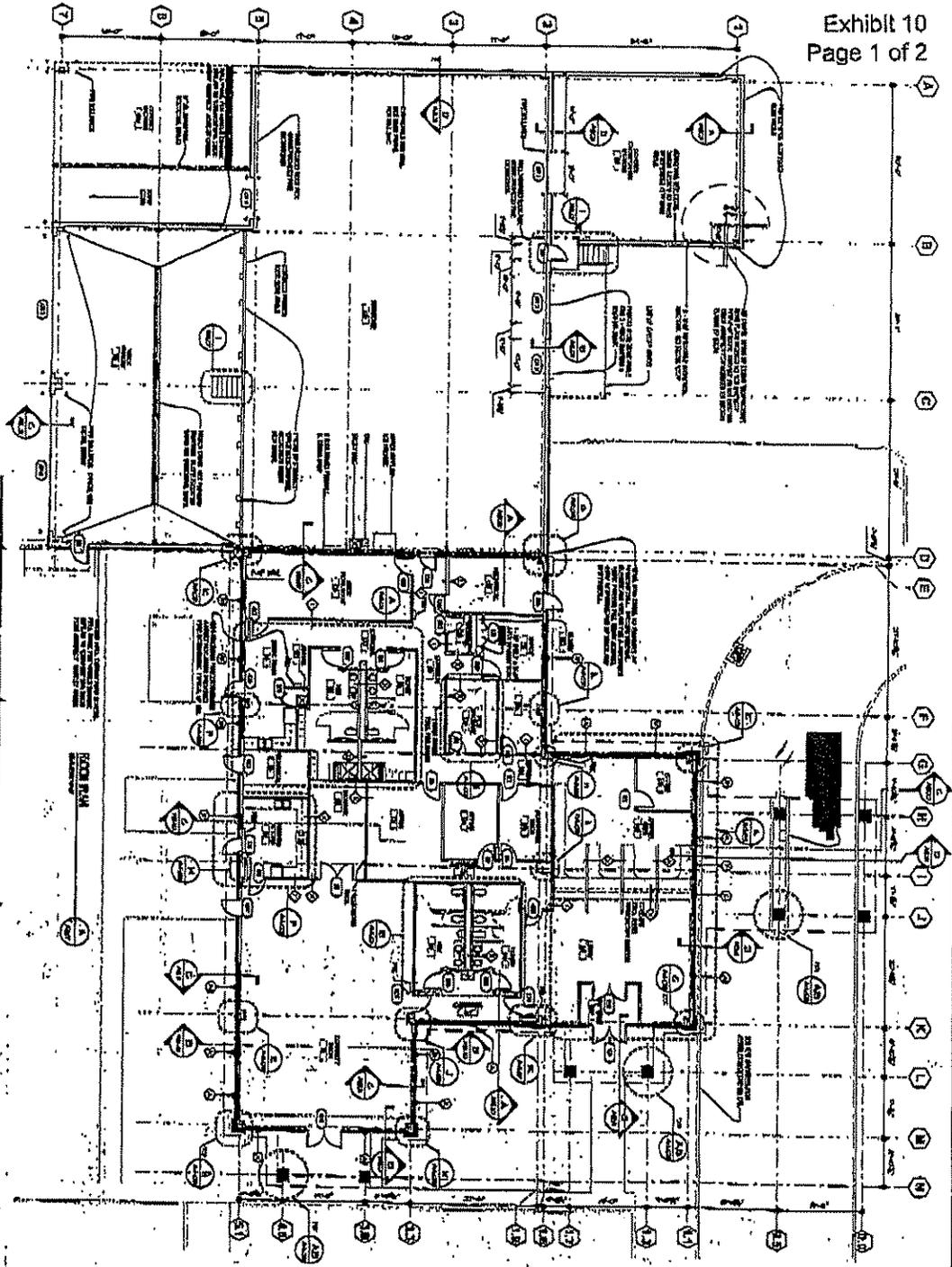
**SOUTH KENTUCKY RECC
SOMERSET, KY**

Exhibit 10
Page 1 of 3

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

PROPOSED BUILDING AND FLOOR DIAGRAM

On pages two and three of this exhibit is an external view of the building when completed along with a copy of the floor diagram for the buildings



WALL TYPE 10
 1. 1/2" GYPSUM BOARD ON STUDS
 2. 1/2" GYPSUM BOARD ON STUDS
 3. 1/2" GYPSUM BOARD ON STUDS
 4. 1/2" GYPSUM BOARD ON STUDS

WALL TYPE 20
 1. 1/2" GYPSUM BOARD ON STUDS
 2. 1/2" GYPSUM BOARD ON STUDS
 3. 1/2" GYPSUM BOARD ON STUDS
 4. 1/2" GYPSUM BOARD ON STUDS

WALL TYPE 30
 1. 1/2" GYPSUM BOARD ON STUDS
 2. 1/2" GYPSUM BOARD ON STUDS
 3. 1/2" GYPSUM BOARD ON STUDS
 4. 1/2" GYPSUM BOARD ON STUDS

WALL TYPE 40
 1. 1/2" GYPSUM BOARD ON STUDS
 2. 1/2" GYPSUM BOARD ON STUDS
 3. 1/2" GYPSUM BOARD ON STUDS
 4. 1/2" GYPSUM BOARD ON STUDS

WALL TYPE 50
 1. 1/2" GYPSUM BOARD ON STUDS
 2. 1/2" GYPSUM BOARD ON STUDS
 3. 1/2" GYPSUM BOARD ON STUDS
 4. 1/2" GYPSUM BOARD ON STUDS

WALL TYPE 60
 1. 1/2" GYPSUM BOARD ON STUDS
 2. 1/2" GYPSUM BOARD ON STUDS
 3. 1/2" GYPSUM BOARD ON STUDS
 4. 1/2" GYPSUM BOARD ON STUDS

A201	TW TAYLOR CONSULTING ENGINEERS 1000 W. MAIN ST. WHITLEY CITY, KY 40381 (606) 325-1111	NEW DISTRICT OFFICE FOR SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION WHITLEY CITY, KENTUCKY	TAYLOR CONSULTING ENGINEERS 	
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